



House Policy Committee

Chairman John Shadegg

War of Words on Social Security WHAT'S IN A NAME? "Personal" Accounts vs. "Private" Ones

Individual accounts would fundamentally reform Social Security, giving millions of Americans the opportunity to have a more secure retirement. But fearful or cynical opponents of reform are trying to distort the debate by using scare words and misleading labels.

The most common rhetorical trick is to bemoan Social Security "privatization" or "private accounts." But no one is advocating privatization – instead Social Security reformers are talking about "personal accounts."

This is not just a semantic difference. They are two different policy options, and opponents of reform are intentionally using the wrong term to mislead the American people.

"PRIVATE" RETIREMENT ACCOUNTS

Privatizing Social Security, or having private retirement accounts, would mean that people would be all alone in making investment choices - with no government oversight or guidance. With private retirement accounts, private investment firms would invest the money, could charge high fees, and make risky investments. There would be far more choice for consumers, but far less security.

Opponents talk about the private accounts used in Chile and Great Britain, where results have been mixed. But in those two countries, participants in retirement accounts were either charged exorbitant administrative costs (Chile) or were lured into questionable private pensions by corrupt or overzealous sales agents (Great Britain).

PERSONAL RETIREMENT ACCOUNTS

In contrast to private accounts, under personal retirement accounts, individuals would be able to choose from a limited number of investment options that would be selected and overseen by the federal government.

Individuals would not be inundated by potentially unscrupulous stock and bond salesmen, as was the case in Great Britain. For example, under almost all of the plans being discussed, there would be from one to five investment funds from which an individual could choose. The menu might include a Treasury bill index fund, a bond index fund, a small business stock index fund, a total stock market index fund, and an international stock index fund.

Unlike in Chile, where administrative costs reached as high as 15 to 20 percent, "personal" retirement accounts would have a cost structure like the federal employees' Thrift Savings Plan. The expenses of that plan are less than one-tenth of one percent.